

Message Text

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17

ACTION NEA-16

INFO OCT-01 EUR-25 ISO-00 CIAE-00 DODE-00 PM-07 H-03

INR-10 L-03 NSAE-00 NSC-07 PA-04 RSC-01 PRS-01 SP-03

SS-20 USIA-15 AID-20 IO-14 SAM-01 SAI-01 TRSE-00

OMB-01 EB-11 COME-00 FEA-02 FPC-01 AGR-20 INT-08

CIEP-02 NIC-01 DRC-01 /199 W
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FM AMEMBASSY KABUL

TO SECSTATE WASHDC 8418

INFO AMEMBASSY MOSCOW

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SUBJ: SOVIET AID TO AFGHANISTAN - FURTHER ON FALLOUT FROM
DAOUD'S TRIP.

REF: KABUL 3656

1. SUMMARY: AT FILM RECEPTION CELEBRATING FORTHCOMING US-SOVIET SUMMIT, SOVIETS CONFIRMED ANNOUNCED DETAILS OF NEW SOVIET AID. THEY ALSO STATED THAT AID IS ON SOFT TERMS, IS STILL INDETERMINATE AS TO FINAL PROJECTS AND DETAILS, AND IS LONG TERM. TRADE INCREASES ARE ON COMMERCIAL TERMS. END SUMMARY.

2. AT USIS RECEPTION FOR SOVIET EMBASSY PERSONNEL CELEBRATING COMING MOSCOW SUMMIT, AMBASSADOR AND USAID DIRECTOR BROWN SPOKE WITH SOVIET AMBASSADOR PUZANOV ABOUT NEW SOVIET AID AGREEMENT STEMMING FROM DAOUD TRIP. PUZANOV STATED THAT LOAN TERMS WOULD BE 2 1/2 PERCENT, WITH FIFTEEN TO FIFTY YEAR LOAN TERMS FOR PROJECT ACTIVITIES. GRACE PERIODS WOULD VARY ACCORDING TO PROJECTS, FROM CLOSE TO ZERO FOR AN OIL REFINERY, THREE YEARS FOR INDUSTRIAL

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PROJECTS, TO LONGER GRACE PERIODS ON LONG TERM PROJECTS SUCH AS

ROADS AND IRRIGATION.

3. IN DISCUSSING HOW THE SOVIET ASSISTANCE PROGRAM WORKED, PUZANOV MADE IT CLEAR THAT WHAT WAS AGREED IN MOSCOW WAS A LINE OF CREDIT FOR A POTENTIAL LIST OF PROJECTS. NO MONEY WOULD BE MADE AVAILABLE UNTIL SPECIFIC PROJECTS WERE DEVELOPED, AND THE LOAN TERMS WOULD BE WORKED OUT SEPARATELY FOR EACH PROJECT.

4. IN REFERENCE TO THE HAJIGAK IRON DEPOSITS, PUZANOV INDICATED THAT THE SOVIETS WERE CONSIDERING AN ECONOMIC AND TECHNICAL FEASIBILITY STUDY, PERHAPS EVENTUALLY LEADING TO A VERY SMALL STEEL PLAN USING A DIRECT REDUCTION SYSTEM DEVELOPED IN WEST GERMANY, BUT THE SIZE OF THE MARKET IS A BASIC PROBLEM.

5. GURI BULAKH, NEW SOVIET TRADE REPRESENTATIVE, STATED TO EMB/ECON OFFICER THAT THE USSR HAD GOTTEN A VERY GOOD DEAL ON INCREASED TRADE. IN EXCHANGE FOR INCREASED SUGAR SUPPLIES, AND IN THE ATMOSPHERE OF THE NEW SOVIET ASSISTANCE ARRANGEMENT,

AFGHANISTAN HAD GIVEN VERY GOOD TERMS ON COTTON AND "OPTIONS ON GOOD TERMS FOR MANY RAW MATERIALS IN SHORT SUPPLY". HE WOULD NOT ELABORATE.

6. AMBASSADOR PUZANOV, FIRST SECRETARY STANISLAV GAVRILOC AND SECOND SECRETARY IGOR KRIVAGOUS COMMENTED ON POSSIBLE AMU DARYA IRRIGATION PROJECTS, REJECTING THEM AS BEYOND THE CURRENT FINANCIAL CAPABILITY OF THE AFGHANS, EVEN WITH SOVIET ASSISTANCE. PUZANOV SAID THAT IF A PROJECT WERE CONSIDERED, IT WOULD NOT BE FOR 10-15 YEARS. KRIVAGOUS STATED THAT THE AFGHANS HAD AGREED, SINCE IT WOULD CONSUME "ALL " OF THE NEW CREDIT. PUZANOV AND GAVRILOV BOTH STATED LIMITED IRRIGATION PROJECTS WERE AGREED ON FOR BALKH, KOKCHA AND KUNDUM RIVERS, ALL TRIBUTARIES OF AMU DARYA. GAVRILOV ESTIMATED FIVE YEARS FOR COMPLETION. COMMENT: THE WATER FLOW OF THE AMU DARYA IS 50 TO 100 TIMES THAT OF ALL OTHER AFGHAN RIVER SYSTEMS, AND IT FLOWS PAST THE RICHEST LAND IN AFGHANISTAN. CURRENTLY, USSR HAS CLOSE TO 100 PER CENT USE OF THAT FLOW. DETAILED STUDIES FOR AN AMU DARYA PROJECT WERE DONE SOME 15 YEARS AGO BY A JOINT SOVIET-AFGHAN COMMISSION, BUT THE GOA NEVER RECEIVED THE RESULTS. WHILE ADMITTEDLY EXPENSIVE, THIS LIMITED OFFICIAL USE

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PROJECT COULD HAVE VAST IMMEDIATE BENEFITS TO AFGHANISTAN, AT SOME SOVIET EXPENSE. IT APPEARS THAT THE SOVIETS ACHIEVED A MAJOR SUCCESS IN AGAIN DIVERTING AFGHAN ATTENTION FROM THIS PROJECT.

7. KRIVAGOUS ALSO NOTED THAT HE EXPECTED THE AID AGREED UPON DURING DAOUD'S TRIP TO STRETCH THROUGH THE CURRENT AFGHAN FIVE-YEAR PLAN AND THROUGH THE NEXT AS WELL. HE STATED THAT

THIS WAS ALL THE PROJECT ASSISTANCE THE USSR WAS CONTEMPLATING AT THE PRESENT TIME. WHEN ASKED ABOUT THE REPORTED \$600 MILLION "COMMITMENT", HE USAID THAT THE AFGHANS COULDN'T POSSIBLY ABSORB THAT MUCH AID, SO IT DID THE SOVIETS NO HARM TO ACCEPT THE AFGHAN \$600 MILLION FIGURE.

8. IN SUBSEQUENT CONVERSATIONS IN MINISTRY OF PLANNING, TERMS OF SOVIET DEBT RELIEF DISCLOSED. RELIEF CONSISTS OF 100 MILLION RUBLE MORATORIUM FOR FIVE YEARS. RELIEF IS AN EVEN 20 MILLION RUBLES PER YEAR FOR FIVE YEARS (\$26.6 MILLION) STARTING 1354 (1975). REPAYMENT IS RESCHEDULED FOR EVEN INSTALLMENTS OVER TEN YEAR PERIOD, 1359-1369 (1980-1990).
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